

Document: EB 2019/128/R.27
Agenda: 7(d)(ii)(c)
Date: 14 November 2019
Distribution: Public
Original: English

E



President's report
Proposed loan
Republic of Uganda
National Oilseeds Project
Project ID: 2000002260

Note to Executive Board representatives

Focal points:

Technical questions:

Sara Mbago-Bhunu
Regional Director
Tel.: +39 06 5459 2838
e-mail: s.mbago-bhunu@ifad.org

Lakshmi Moola
Country Director
Tel.: +254 20 761 1023
e-mail: l.moola@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

Executive Board — 128th Session
Rome, 10-12 December 2019

For: Approval

Contents

Abbreviations and acronyms	ii
Map of the project area	iii
Financing summary	iv
I. Context	1
A. National context and rationale for IFAD involvement	1
B. Lessons learned	2
II. Project description	2
A. Objectives, geographical area of intervention and target groups	2
B. Components, outcomes and activities	3
C. Theory of change	3
D. Alignment, ownership, and partnerships	4
E. Costs, benefits and financing	4
III. Risks	9
A. Risks and mitigation measures	9
B. Environment and social category	10
C. Climate risk classification	10
D. Debt sustainability	10
IV. Implementation	10
A. Organizational framework	10
B. Planning, monitoring and evaluation, learning, knowledge management and communications	11
C. Implementation plans	12
V. Legal instruments and authority	12
VI. Recommendation	13

Appendices

- I. Negotiated financing agreement (to be tabled at the session)
- II. Logical framework

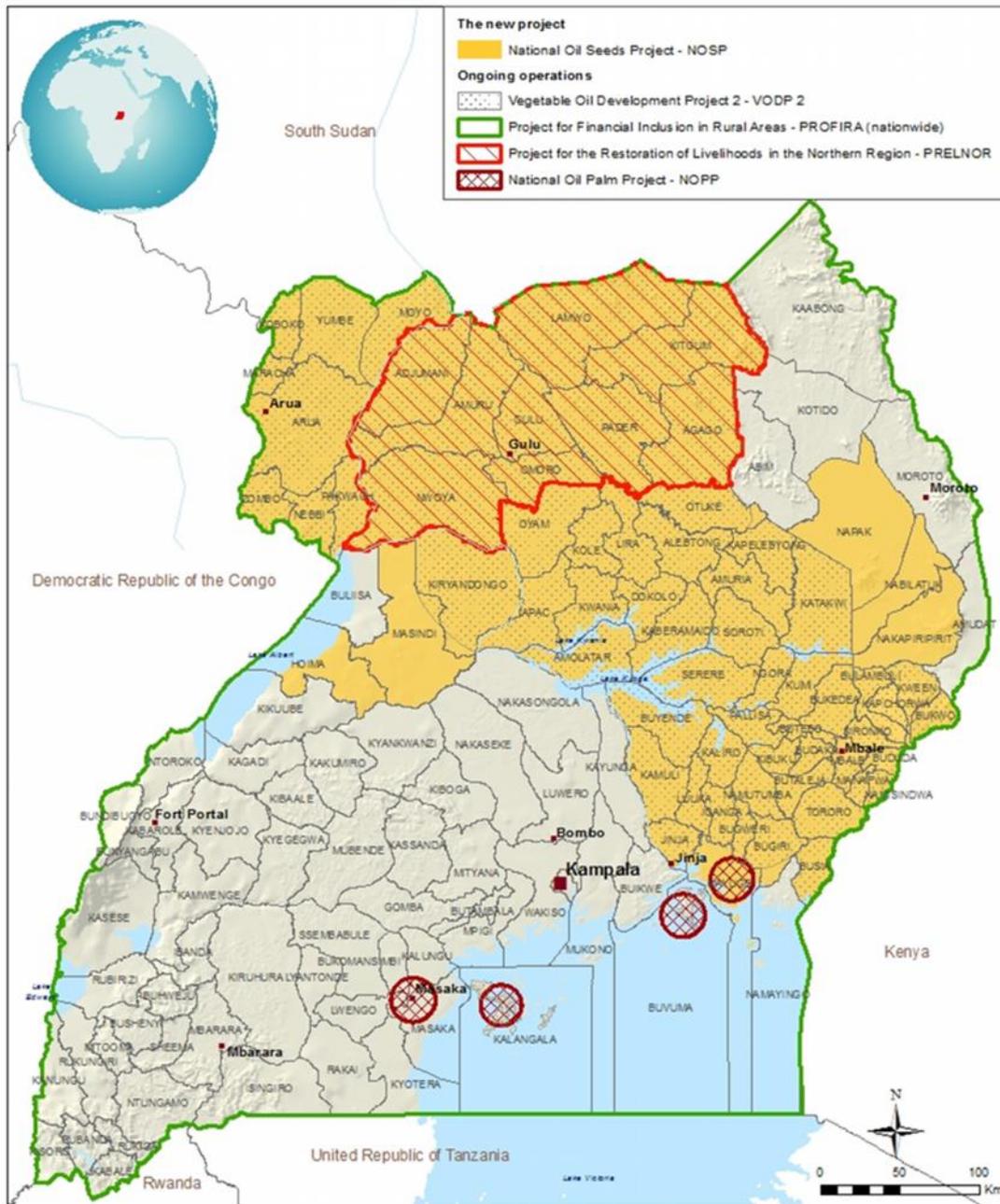
Project delivery team

Regional Director:	Sara Mbago-Bhunu
Country Director:	Lakshmi Moola
Project Technical Lead:	Robert Delve
Finance Officer:	Aissata Bangoura
Climate and Environment Specialist:	Paxina Chileshe
Legal Officer:	Paul-Edouard Clos

Abbreviations and acronyms

AWP/B	annual workplan and budget
GALS	Gender Action Learning System
HI	Heifer International
MAAIF	Ministry of Agriculture, Animal Industry and Fisheries
MoLG	Ministry of Local Government
M&E	Monitoring and Evaluation
MSP	multi-stakeholder platform
NOSP	National Oilseeds Project
OFID	OPEC Fund for International Development
PICT	project implementation coordination team
PCU	project coordination unit

Map of the project area



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.
 Map compiled by IFAD | 07-08-2019

Financing summary

Initiating institution:	Ministry of Finance, Planning and Economic Development
Borrower/recipient:	Republic of Uganda
Executing agencies:	Ministry of Agriculture, Animal Industries and Fisheries and Ministry of Local Government
Total project cost:	US\$160.7 million
Amount of IFAD loan:	SDR 72.3 million (equivalent to approximately US\$99.6 million)
Terms of IFAD loan:	Highly concessional terms:(maturity period of 40 years, grace period 10 years and fixed service charge as determined at the date of approval of the financing)
Cofinanciers:	OPEC Fund for International Development (OFID) Heifer International (HI)
Amount of cofinancing:	OFID: US\$30.0 million HI: US\$6.2 million Kuehne Foundation: US\$13,000
Terms of cofinancing:	OFID: Maturity period of 20 years – grace period of 5 years – interest rate of 1.25% – service charge 1% HI financing relates to technical assistance
Contribution of borrower/recipient:	US\$14.3 million
Contribution of beneficiaries:	US\$4.8 million
Contribution of private sector:	US\$5.8 million
Amount of IFAD climate finance:	US\$16.2 million
Cooperating institution:	Directly supervised by IFAD
Appraising institution:	IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation contained in paragraph 55.

I. Context

A. National context and rationale for IFAD involvement

National context

1. Uganda's pursuance of a fully liberalized and market-driven economy, with the private sector taking the driver's seat to achieve economic growth and social development, has resulted in high growth rates (6.1 per cent in 2018). However, despite the improved growth, Uganda remains a low-income country, with GDP per capita at US\$604 in 2018, and poverty continues to pose a serious development challenge. Poverty is still predominantly rural, with 23 per cent of the rural population falling into the lowest wealth quintile, compared with 9 per cent in urban areas. The poorest districts are in the drier areas of northern and eastern Uganda.
2. Agriculture accounts for 25 per cent of GDP; 70 per cent of employment (overwhelmingly on smallholder farms); over half of the country's surface area; and 50 per cent of total exports. Within the agricultural sector, the oilseeds industry ranks high on the Government's agenda, given its poverty reduction potential in the poorest northern and north-eastern regions of Uganda. Oilseed is one of the four strategic commodities in the Agricultural Sector Strategic Plan and is expected to lead the transformation of smallholder agriculture from subsistence into commercial farming.

Special aspects relating to IFAD's corporate mainstreaming priorities

3. In line with the Eleventh Replenishment of IFAD's Resources (IFAD11) mainstreaming commitments, the National Oilseeds Project (NOSP) has been classified as:
 - Climate-focused;
 - Gender transformational;
 - Nutrition-sensitive;
 - Youth-sensitive.
4. Climate and environment. To combat climate change, NOSP mainstreams adaptation in its investments through: (i) farmer support and information to develop flexible adaptation and contingency plans; (ii) technologies to promote integrated soil fertility management, crop diversification and conservation agriculture; (iii) crop insurance, climate information and early warning systems; (iv) climate-smart agriculture practices; (v) post-harvest handling and storage; (vi) expanding water use efficiency; (vii) promotion of agroforestry; and (viii) capacity-building in integrated pest management.
5. Gender. NOSP will empower women through: (i) the Gender Action Learning System (GALS), with an integrated nutrition component; (ii) introduction of new labour-saving technologies and services; (iii) incentives and capacity-building to increase women's active participation in and leadership of farmers' organizations and service provision thereby increasing women's leadership roles in the community. Women will account for 60 per cent of NOSP beneficiaries.
6. Youth. NOSP mainstreams youth through opportunities and engagement in the commercialization aspect of the project, including: (i) harnessing youth farmer groups, trained through practical demonstrations and fieldwork at farmer field schools; (ii) engaging educated youth as economic mobilizers in the community;

and (iii) providing incentives for youth participation in training as providers of auxiliary services. Young people will account for 40 per cent of NOSP beneficiaries.

7. Nutrition. Most subregions in northern Uganda face food energy gaps: staple food consumption represents a higher than optimal share of diets and nutrient-rich foods are under-consumed. NOSP mainstreams nutrition interventions through: (i) enhanced access to nutrition knowledge and a healthy food culture to address challenges; and (ii) provision of equipment and training to support greater aflatoxin control and awareness.

Rationale for IFAD involvement

8. Income and investment pathways for smallholders are constrained by: unpredictable climatic events; poor road infrastructure; limited post-harvest facilities; insufficient access to inputs; insufficient and/or inadequate agriculture extension and lack of sufficient knowledge of market forces.
9. Prior IFAD investments have supported the oilseeds sector through inclusive value chain approaches. Further investments to fully commercialize the oilseeds sector are important, given the potential for import substitution and future investments in the animal feed and livestock sectors. The Government of Uganda thus requested IFAD and OFID to further develop and fully commercialize the oilseeds sector in order to: (i) increase production and productivity of oilseeds and by-products; (ii) empower smallholders to become parity players in the sector; (iii) improve access to credit; (iv) ensure that road networks directly support the sector by increasing ease of access to and from communities; and (v) organize availability and increase access to fertilizers and other quality inputs.
10. NOSP will not involve any investments in oil palm.

B. Lessons learned

11. The following lessons are drawn from IFAD investments in the Vegetable Oil and Development Project, phases I (VODP) and II (VODP II):
12. While poverty impact was substantial, the following actions would have generated additional benefits for the beneficiaries: (i) more applied research on soil fertility and new oilseed varieties; (ii) support for private sector extension and seed supplies; (iii) support for mechanization, value addition, post-harvest handling and group marketing; and (iv) stronger focus on promoting direct commercial relations between farmers and private sector actors.
13. Private sector-led mobilization, extension services and capacity-building of farmers and their organizations proved to be more effective and efficient than interventions led by local government structures and public extension services.
14. Oilseeds subsector multi-stakeholder platforms (MSPs) can be implemented successfully when operated by the private sector, thereby providing a conducive environment for value chain actors to build trust, define gaps and constraints in specific value chains, identify investment areas to improve value chain effectiveness and develop implementation arrangements among stakeholders.
15. Improving rural infrastructure (roads) is important in enhancing commercialization, and has a direct positive impact on smallholder farmers.

II. Project description

A. Objectives, geographical area of intervention and target groups

16. The project's goal is: inclusive rural transformation through sustainable development of the oilseeds sector. The development objective is: to accelerate commercialization in key oilseeds value chains and thereby improve the livelihoods and resilience of the smallholders engaged in oilseeds production and marketing.

17. Project area. NOSP will be implemented across six area-based hubs in agroecological areas that are optimal for oilseeds production. Hub selection was based on oilseeds production potential, and also influenced by social, demographic and economic criteria, including existence of emerging processing facilities, entrepreneurial potential among the target groups and the poverty level.
18. Target groups. NOSP will work directly with 120,000 smallholder households. The project's primary beneficiary group is smallholder farmers growing oilseeds. NOSP will also partner with processors, input suppliers, service providers, agents, traders, transporters, financiers and academic research institutions. NOSP's approach is to build on stronger farmers (who have benefitted from previous support) and their groups to influence and work with other farmers within a geographic area (cluster). The targeting approach differentiates interventions for three categories of smallholders: (i) small-scale oilseeds growers; (ii) new entrants or farmers from more remote locations; and (iii) semi-commercial/commercial oilseeds growers.

B. Components, outcomes and activities

19. NOSP has two mutually interdependent components:
20. Component 1: Support to oilseed value chain development. The objective is to cluster 120,000 smallholder farmer households by accelerating the growth of competitive clusters and value chains for oilseeds and pro-actively developing opportunities for private sector investments in oilseeds and related by-products. This is achieved through two subcomponents:
 - (i) Subcomponent 1.1: cluster development – through an inclusive cluster development approach in each of the hubs; and
 - (ii) Subcomponent 1.2: support market development – covering the supply of essential financial, technical and input services.
21. Component 2: Support to market linkage infrastructure serving the oilseeds sector. The objective is to improve local-level public transportation infrastructure to facilitate the commercialization of the oilseeds sector. The implementation of activities under this component will encourage private sector investments, promote the production and marketing of good quality oilseeds, and reduce the time and cost of transport to markets. Activities under this component will reduce transaction costs and increase farmers' income through improved community access road networks. The successful implementation of component 2 is a prerequisite for attaining NOSP's productivity, production and household income growth targets.

C. Theory of change

22. The theory of change (ToC) is based on the premise that a market-driven approach is needed to help smallholder oilseeds producers reach a higher level of commercialization and a better bargaining position, and thereby increase their incomes and improve their livelihoods, food security and nutrition. When supply chains remain under-developed and farmers' organizations weak, the prices for farmers' produce are largely dictated by the off-takers. In addition, smallholder farmers have to deal with increased threats from a changing climate and degradation of their natural resource base.
23. The ToC follows the pathway of targeted support to smallholders and other stakeholders in the oilseeds sector to increase productivity and production, build resilient and sustainable livelihoods, and create stronger linkages with national and export markets. This will be achieved by supporting farmer groups, developing the productive and business skills of men and women, and linking farmers to sustainable and profitable markets. This will directly contribute to the Government's national priorities to commercialize the oilseeds sector and its

related value chains; reduce economic disparity; and promote food security and nutrition.

D. Alignment, ownership, and partnerships

24. The NOSP objectives and interventions are fully aligned with the Government's development strategies as set forth in the Second National Development Plan and the Agriculture Sector Strategic Plan. These focus on rural economic transformation and the commercialization of smallholder agriculture. In terms of the Sustainable Development Goals (SDGs), NOSP contributes directly to SDGs 1 (no poverty), 2 (no hunger), 8 (good jobs and economic growth), 9 (innovation and infrastructure), 10 (reduced inequalities) and 13 (climate action). NOSP is also fully aligned with IFAD's Strategic Framework 2016-2025, notably strategic objectives 2 and 3 of enabling inclusive and sustainable transformation of rural areas through smallholder-led growth and mainstreaming priorities.
25. Harmonization and partnerships. NOSP will develop synergies with the other IFAD-supported operations in Uganda to avoid duplication and enhance the portfolio's overall impact. Heifer International and OFID are cofinancing partners in the NOSP investments. Furthermore, NOSP will build strategic and operational partnerships with other ongoing and pipeline projects funded by development partners working in the oilseeds subsector, such as the German Agency for International Cooperation (GIZ) and KfW Development Bank; Danida; the United Kingdom's Department for International Development; the European Union; and the United States Agency for International Development.

E. Costs, benefits and financing

26. Project components 1 (support to oilseed value chain development) and 2 (support to market linkage infrastructure serving oilseeds sector) are partially counted as climate finance. As per the multilateral development banks methodologies for tracking climate adaptation and mitigation finance, the total amount of IFAD climate finance for this project is preliminarily calculated as US\$16.2 million.

Project costs

27. The total project cost, inclusive of about 14.75 per cent physical and price contingencies, is US\$160.7 million, over a seven-year period, and incremental recurrent costs represent 7 per cent of the IFAD loan. See table 1 for a breakdown of the costs by component/output and financier.

Table 1

Project costs by component and subcomponent and financier

(Thousands of United States dollars)

Component/ subcomponent	IFAD loan		OFID loan		Heifer International		Kuehne Foundation		Beneficiaries		Private sector		Borrower/ counterpart			Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Amount
1. Support to oilseed value chain development																
1.1. Cluster development	36 096	78.2			6 150	13.3	13	0.01			505	1.1	3 383		7.3	46 147
1.2 Support market development	17 422	56.4							4 834	15.6	5 331	17.2	3 321		10.7	30 908
2. Support to market linkage infrastructure serving oilseeds sector	32 900	47	30 000	42.9									7 033		10.1	69 933
3. Project coordination and management	10 955	97.4											296		2.6	11 251
4. Knowledge management and monitoring and evaluation	2 187	89.4											260		10.6	2 447
Total	99 560	62	30 000	18.7	6 150	3.8	13		4 834	3	5 836	3.6	14 293		8.9	160 686

Table 2

Project costs by expenditure category and financier

(Thousands of United States dollars)

Expenditure category	IFAD loan		OFID loan		Heifer International		Kuehne Foundation		Beneficiaries		Private sector		Borrower/counterpart			Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Cash	In-kind	%	Amount
Investment costs																
A. Works	25 511	41.4	30 000	48.6									6 168		10	61 679
B. Goods, services and inputs	33 002	60.2			6 150	11.2			4 834	8.8	5 331	9.7	5 480		10	54 797
C. Equipment and materials	4 598	80											1 149		20	5 747
D. Consultancies	4 731	98											99		10	4 830
E. Training and workshops	11 427	89.9					13	0.01					1 271		10	12 711
F. Grants and Subsidies	9 599	95									505	5				10 104
Total Investment costs	88 868	59.3	30 000	20	6 150	4.1	13		4 834	3.2	5 836	3.9	14 167		9.5	149 868
Recurrent costs																0
A. Salaries and allowances	9 550	100														9 550
B. Operating costs	1 141	90											127		10	1 268
Total recurrent costs	10 691	98.8	0		0		0		0		0		127			10 818
Total	99 559	62.0	30 000	18.7	6 150	3.8	13		4 834	3	5 836	3.6	14 294		8.9	160 686

Table 3

Project costs by component and subcomponent and project year (PY)

(Thousands of United States dollars)

	PY1		PY2		PY3		PY4		PY5		PY6		PY7		Total
<i>Component/ subcomponent</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>												
1. Support to oilseed value chain development															
1.1. Cluster development	4 960		10 145		10 674		8 286		6 605		4 571		906		46 147
1.2 Support market development	2 483		5 444		4 915		4 580		5 312		4 204		3 970		30 908
2. Support to market linkage infrastructure serving oilseeds sector			2 091		2 804		26 013		26 533		12 279		214		69 933
3. Project coordination and management	523		1 941		2 199		1 593		1 649		1 673		1 674		11 251
4. Knowledge management and monitoring and evaluation	611		111		113		1 016		175		120		302		2 447
Total	8 576		19 732		20 705		41 487		40 273		22 847		7 066		160 868

Financing and cofinancing strategy and plan

28. The IFAD loan will finance US\$99.56 million of the total project cost. Cofinancing from OFID totals US\$30.0 million and will finance the infrastructure development component. HI will finance US\$6.15 million of the producer group mentoring activity. Smallholder beneficiaries and small enterprises will contribute US\$4.8 million and US\$5.8 million, respectively. The Government will contribute US\$14.3 million in the form of taxes and duties. In addition, Kuehne Foundation will provide technical assistance valued at US\$13,000 as an in-kind contribution towards the training of hub-based value chain experts.

Disbursement

29. IFAD financing will be disbursed in accordance with agreed terms and conditions set forth in the financing agreement, letter to the borrower and the loan disbursement handbook. Component 2 is financed by both IFAD and OFID. OFID will extend a loan of US\$30 million as cofinancing towards the infrastructure development component. IFAD will be the administrator for the OFID loan. It is expected that disbursement from OFID will start in year 2021 and end in year 2025.

Summary of benefits and economic analysis

30. In total, NOSP will support the operations of approximately 200 oilseeds clusters in the six hubs. The average smallholder membership per cluster is 500–600 households, with a target of reaching 120,000 smallholder households. The NOSP support to the improvement of community access roads in and around the NOSP oilseeds clusters is expected to benefit approximately 350,000 rural households. Net income cash flows and the net present value indicators show that all farm system types examined were found to be financially viable.
31. Economic analysis. The overall NOSP project economic net present value is US\$60 million at 10 per cent discount rate. The economic internal rate of return (EIRR) is 17.9 per cent. The benefit cost ratio of 1:44 indicates a return of approximately US\$1.44 for every dollar invested. Results indicate that the project is a worthwhile investment. An increase in costs by 10 per cent will reduce the EIRR to 15.8 per cent, while a decrease in overall benefits by 20 per cent will result in an EIRR of 13.0 per cent. A one-year delay in benefits reduces the EIRR to 14.9 per cent and a two-year delay to 12.7 per cent. The modelling indicates that economic viability is maintained in the face of a 31 per cent decrease in benefits, or a 44 per cent increase in costs.

Exit strategy and sustainability

32. Sustainability of the NOSP benefits and results will be ensured at three different levels: the smallholders, the farmer groups/cooperatives and the value chain actors. The NOSP exit strategy and its success are closely linked to results achieved at these three levels.
- (i) Smallholder level. NOSP will support oilseeds production systems that are suitable to local agroecological zones and climatic conditions. Environmental management, resource use efficiency and climate change adaptation will be enhanced under NOSP. Mentoring and training in business and technical skills are expected to significantly improve smallholders' potential to sustain the benefits.
 - (ii) Group/cooperative level. The key objective of NOSP is that all producer groups in clusters graduate to being fully independent, financially robust and self-managing within four years of project engagement.
 - (iii) Value chain level. MSPs are expected to continue operating systematically according to rolling joint cluster action plans. In total, the combination of the project impact on farmers, groups/cooperatives and the whole value chain,

as well as the private sector focus of the project, is expected to ensure favourable results in terms of sustainability of the NOSP benefits.

33. Exit strategy. The NOSP focus on sustainable results and on independent, profitable institutions and private sector-based partnerships forms the core exit strategy. This builds on the existing private sector-driven extension services currently in place.

III. Risks

A. Risks and mitigation measures

Table 4

Risks and mitigation measures

<i>Risks</i>	<i>Risk rating</i>	<i>Mitigations measures</i>
Political/governance	M	NOSP target area has enjoyed political stability for over 15 years. Improvements in overall policy environment, with a stronger private sector emphasis, have enhanced economic development opportunities and increased chances of improved future equality and social stability.
Macroeconomic	M	A fully liberalized economy and market environment with the private sector taking the driver's seat to achieve economic growth and social development.
Sector Strategies and policies	L	Oilseed is a priority crop in the Agriculture Sector Strategic Plan and is expected to bring about rural economic transformation, through the commercialization of smallholder agriculture.
Institutional capacity	M	The market and private sector focus in the project implementation approach mitigates this threat. The widespread use of experts and service providers contracted from the private sector aims to ensure that performance-oriented implementation will materialize in NOSP operations.
Portfolio	M	There are no problem projects in the portfolio. Changes have been introduced to strengthen the fiduciary challenges (see below).
Fiduciary	H	<p>The identified project risks relate to discrepancies in budgeting due to the strict timelines; omission of project budgets in printed estimates; the Ministry of Finance, Planning and Economic Development's requirements for project financial reporting using the Integrated Financial Management System (IFMS), which has not been fully tested on its capability for project financial reporting; and delays in financial reporting by districts that will handle some funds for supervision and monitoring of infrastructure development and other agricultural and environment-related activities.</p> <p>To mitigate these risks key payments for infrastructure works will be budgeted and paid from the parent ministry (Ministry of Local Government [MoLG]), hence reducing funds to be disbursed or required to be budgeted by districts. Close collaboration between the project coordination unit (PCU) and officers at the ministry/district levels will ensure that the appropriate budget is included in the printed estimates. To mitigate challenges of IFMS, a simple off-shelf accounting system will run concurrently for the first 18 months as a pilot phase.</p>
Procurement	H	The overall procurement risk is rated "medium" at central level and "high" at district level. To reduce procurement risks, the project design report includes a draft for a comprehensive procurement manual for NOSP. With regard to the management and execution of procurement activities, an experienced procurement and contracts manager will be recruited in the PCU immediately after NOSP start-up. Furthermore, a procurement specialist will be recruited upon NOSP effectiveness to the project implementation coordination team (PICT) in MoLG, to support and oversee the procurement activities related to the construction and rehabilitation of rural roads. IFAD will also support the planning and implementation of an intensive training programme at project start-up to familiarize the central Ministries and district Procurement Disposal Units with NOSP/IFAD guidelines on procurement and contract management.
Environment and climate	M	Increased commercialization of cash crop production, as in the case of oilseeds, may have an adverse environmental impact. The promotion of environmentally friendly technologies and climate-smart agricultural practices will ensure that the social and environmental aspects are addressed on a continuous basis. Additionally, the MSPs will serve as a conduit for any emerging issues to be addressed during the course of implementation. Environmental and social management plans (ESMPs) will be developed for rural road works.
Social	M	Women are still not regarded within the household as highly as their male counterparts, to that end, NOSP uses the GALS to promote gender participation and empowerment in the target areas.

B. Environment and social category

34. The environmental and social categorization of NOSP is B. Appropriate environmental and social mitigation measures will be further defined in subproject-specific ESMPs during implementation. An environmental and social management framework (ESMF) has been elaborated during design, which includes procedures to ensure that environmental and social risks are avoided or mitigated. To adhere to the categorization, the infrastructure development under NOSP will be limited to non-sensitive areas, road stretches of 10 km or less, and will not involve any physical or economic displacement. The screening criteria for each of the subprojects, requirements for feasibility studies, environmental and social impact analyses and approval procedures are articulated in the ESMF.

C. Climate risk classification

35. The NOSP target beneficiaries are dependent on natural resources that are exposed and sensitive to climate change impacts. The smallholders practice predominantly rain-fed agriculture. The main climate risks being faced in the target areas are droughts, floods and rising temperatures. Agricultural productivity is adversely impacted by late rains and late cessation, which have been reported by smallholders. Climate variability also affects the post-harvest handling of agricultural produce, particularly the drying and storage practices. The NOSP climate risk classification is moderate. A basic climate risk analysis has been completed.

D. Debt sustainability

36. Despite significantly higher debt burden trajectories than anticipated in the World Bank Debt Sustainability Analysis, Uganda remains at low risk of external debt distress and overall debt distress. All external debt and total public debt burden trajectories remain below their respective indicative thresholds. The total debt service is expected to average around 41 per cent of government revenue, until oil revenues ensue.
37. Key risks include political pressure for higher current spending, and new ad hoc tax exemptions in addition to existing exemptions, which put downward pressure on already low tax revenues. Further delays in oil exports beyond financial year 2023/2024 could result in liquidity pressure, given the current heavy borrowing for oil sector-related infrastructure that is relying on enhanced repayment capacity from oil exports. Maintaining public debt on a sustainable path will require: strengthening the budget process to ensure that budget targets become more binding; effective public spending and public debt management; and a comprehensive monitoring of fiscal risks.

IV. Implementation

A. Organizational framework

Project management and coordination

38. The co-lead agencies for NOSP at national level will be the Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) and MoLG. A project steering committee will be set up to: (i) provide strategic guidance on programme implementation; (ii) oversee programme planning; (iii) review the annual workplans and budgets (AWP/Bs); and (iv) review implementation progress and impact. MAAIF will establish a PCU to be responsible for managing project implementation, with an emphasis on component 1. The MoLG will establish a small PICT to coordinate the rural infrastructure component (i.e. component 2). In each of the six hubs, a technical implementation team will be set up to lead the field implementation, focusing on component 1. At the district level, local governments will ensure that NOSP activities are coordinated within the district development plans through the district technical planning committees and will play a key role in the NOSP-supported construction and rehabilitation of community access roads.

Financial management, procurement and governance

39. Financial management (FM) arrangements will be aligned with the Government's FM system with some improvements to mitigate the risks identified. The FM risk is rated high, but is moderated to medium after implementation of mitigation strategies. The project will be managed through a dedicated PCU, located at MAAIF, which will be responsible for all project FM. Oversight will be provided through the line ministry. The PICT will handle the financial management of funds related to component 2 (see para. 38). A designated account will be opened at the Central Bank of the Republic of Uganda to receive the IFAD loan proceeds. Two programme operational accounts will be opened to cater to day-to-day transactions for activities managed by MAAIF and MoLG. Funds to districts for monitoring activities will be provided through the government IFMS on a quarterly basis through a replenishment mechanism. A budget code at district level will be assigned to the project to track all the transfers and ensure accountability. This will be managed by a finance person nominated at the district level and trained by IFAD during project start-up.
 40. The project will maintain accounts in accordance with International Accounting Standards and in compliance with the national laws. Although the project will be mainstreamed within the Government's IFMS, due to challenges of reporting according to IFAD requirements, an off-shelf accounting package will be acquired, and further discussion will continue with the Government on adopting IFAD's reporting requirements within the IFMS. This will be continuously assessed during implementation.
 41. The internal auditors at MAAIF and MoLG – supervised by the Internal Auditor General at the Ministry of Finance, Planning and Economic Development – will conduct the internal audit to provide assurance that the project is being implemented in accordance with the project implementation manual (PIM) and complies with government regulations and the project financing covenants.
 42. The Office of the Auditor General will audit the consolidated financial statements for NOSP. Audited financial statements will be submitted to IFAD within six months of the financial year-end in accordance with the IFAD Handbook for Financial Reporting and Auditing of IFAD-financed Projects.
 43. A performance audit will also be carried out for component 1 activities and all other training and capacity-building activities implemented by private service providers.
 44. Procurement will follow government rules, as established by the Public Procurement and Disposal of Public Assets Authority where these are consistent with the IFAD Procurement Guidelines.¹ To ensure efficient implementation, including procurement for rural infrastructure, a procurement specialist will be based in the PICT at the MoLG, and will be responsible for coordination together with the PCU.
- B. Planning, monitoring and evaluation, learning, knowledge management and communications**
45. Planning. Planning and budgeting will be integrated into the Government's processes and cycles and will be based on AWP/Bs. The planning process will start at hub level taking into consideration the priorities identified through the MSPs.
 46. Monitoring and evaluation (M&E), knowledge management and learning. NOSP will develop a robust M&E system in compliance with IFAD and the Government's requirements. The M&E system will be fully aligned with IFAD's Operational Results Management System and will be used to:

¹ IFAD is currently revising the guidelines and as a consequence new procedures for international competitive bidding might apply.

(i) guide implementation; (ii) share knowledge and scale up good practices; and (iii) support policy decisions and enhancement.

Innovation and scaling up

47. NOSP will focus on innovations that have the potential to be scaled up with financing from sources outside NOSP, either during project implementation or after completion. Innovative elements in NOSP include: (i) use of MSPs at cluster level to enhance investment and market relations; (ii) extensive use of private sector-based extension services both in group and cluster development and in technical assistance; (iii) promotion of community-based extension agents as a sustainable alternative to commission-based agents working for a single agro-company; (iv) extensive development of local seed businesses in each cluster to support local self-reliance in quality planting seeds; and (v) roll-out of an agricultural credit product to all village savings and loans associations (VSLAs) to provide local financing to cover input procurement costs, especially the cost of planting seeds, without externally provided loans.

C. Implementation plans

Implementation readiness and start-up plans

48. To ensure a rapid start to implementation, MAAIF and MoLG will ensure early appointment of the project teams. At start-up, a planning process will be undertaken to guide the first two years of implementation. Processes and procedures will be introduced to assist key staff in expediting start-up. To this end, a draft PIM, AWP/B and procurement plan for the first 18 months of implementation will be prepared.

Supervision, midterm review and completion plans

49. NOSP will be jointly supervised by IFAD and OFID, with annual supervision and implementation support missions. The first implementation support/start-up mission will take place soon after effectiveness and first disbursement.
50. A midterm review will be undertaken jointly by the Government, IFAD and OFID during the fourth year of implementation.
51. At the end of the implementation period, the Government, in collaboration with IFAD, will undertake a project completion review to report on the results and impact achieved. The lessons documented in the impact assessment and the project completion review will be used to improve the quality of future designs and implementation.

V. Legal instruments and authority

52. A project financing agreement between the Republic of Uganda and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement will be tabled at the session.
53. The Republic of Uganda is empowered under its laws to receive financing from IFAD.
54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VI. Recommendation

55. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Uganda in an amount of ninety-nine million six hundred thousand United States dollars (US\$99,600,000) equivalent to about seventy-two million three hundred thousand special drawing rights (SDR 72,300,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

(To be tabled at the session)

Results Hierarchy	Indicators/a	Base line	Mid-term target	End target	Means of Verification			Assumptions
					Source	Frequency	Who	
Outreach	1. Estimated corresponding total number of households				Project reports, Outcome surveys	Annual	PCU/PICT	Continued social, political and economic stability in the country and region. Manageable climatic events. Macro-economy continues to improve.
	Household members- Number of people	tbd	1,089,300	1,750,000				
	Households	tbd	217,860	350 000				
	Women-headed HHs/b	tbd	67,540	108 500				
	2. Number of people receiving services promoted or supported by the project							
	Total no. of persons receiving services	0	74,700	120 000				
	Female (60%)	0	44,820	72 000				
	Male	0	29,880	48 000				
Youth (18-35 years) (40%)	0	29,880	48 000					
Project Goal: Inclusive rural transformation through sustainable development of the oilseeds sector.	3. Number of HHs with increased household assets				IFAD Impact Study	Before and after project implementation	IFAD/PMU	Economic policies continue to support oilseeds sector and associated value chains for smallholder farmers.
	Total no. of HHs	tbd	56,020	90 000/c				
	No. of female headed HHs	tbd	17,370	27 900				
	4. Women reporting improved quality of their diets							
Females – Percentage %	0	20	50					
Development Objective: To commercialise key oilseeds value chains and improve the livelihoods and resilience of the smallholders engaged in oilseed production and marketing.	5. Number of HHs reporting increased sales of oilseed crops				Outcome Surveys, IFAD Impact Study	Quarterly	PMU	Implementation builds on limited local government capacity through private sector led support services to smallholder oilseeds farmers.
	Total no of households	tbd	56,020	90 000				
	6. Number of HHs reporting increase in income							
	Households	tbd	56,020	90 000				
OUTCOME A. Increased production, productivity and profitability in oilseeds sector	7. Households reporting an increase in production				Outcome Surveys	Annual	PMU	The project beneficiaries utilize the knowledge and skills given during the trainings.
	Percentage of HHs	0	40	75				
	8. Households reporting adoption of environmentally sustainable, climate resilient technologies and practices							
Percentage of HHs		50	80					

Output A. 1 Multi-stakeholder platforms (MSP) formed and oilseed production clusters established	9. MSPs and Clusters established and brokering deals between stakeholders				HCU Reports, PCU reports	Quarterly	PMU/HCU	Project resources at village level can strengthen group capacity. Smallholder farmers are influenced by the clustering of production, thereby allowing them to have parity with off-takers. Suitable agricultural related income-generating activities.
	Total No of MSPs	0	405	406				
	MSPs Hub level – numbers	0	5	6				
	MSPs Cluster level - numbers	0	400	400				
	No. of clusters	0	200	200				
Output A 2. Production Groups trained in market-orientation and business skills	10. Number of persons trained in income-generating activities or business management				Business Skills Mentor reports, HCU and PCU reports	Quarterly	PMU/HCU	Off-takers are interested in trading with clustered smallholder oilseeds producers. Producers and private sector can negotiate satisfactory arrangements.
	Total	0	74,400	120,000				
	Female	0	44,820	72 000				
	Youth	0	29,880	48 000				
Output A 3. Social mentoring provided to production groups and high-risk households	11. Clusters facilitated in GALS				Mentoring Reports from Mentors, HCU reports, PCU reports	Quarterly	PMU/HCU	Social mentoring can resolve priority issues/constraints.
	Number of clusters	0	200	200				
	12. Number of high-risk HHs receive HH mentoring							
	Number of high-risk HHs	0	20 000	20 000				
	Female-headed HHs	0	12 000	12 000				
Youth-headed HHs	0	8 000	8 000					
Output A 4. Financial Services enhanced in supported clusters	13. Percentage of VSLAs credit-linked with FIs				HCU and PCU reports	Quarterly	PMU/HCU	The GoU facilitates access to the Agriculture Credit Facility to benefit smallholder oilseeds producers.
	% of VLSAs	0	30	60				
	% of women farmers in VSLAs assessing credit/financial services	tbd	40	60				
	% of VSLAs with majority women members	0	85	85				
	% of youth farmers in VSLAs assessing credit/ financial services	0	30	40				
	14. Number of formal FIs supported to launch innovative oilseeds products							
	No. of formal FIs supported	0	2	4				
	No. of formal FIs with innovative oilseeds products	0	2	4				
	15. Number of persons in rural areas trained in financial literacy and/or use of financial products and services							
	Female	0	44,820	72 000				
	Youth	0	29,880	48 000				

Output A 5. Market-based technical services for smallholders enhanced	16. Number of Farm Production Advisors (FPA) mobilised and trained				HCU and PCU reports	Quarterly	HCU	Smallholders willing to, through commercialization, pay for the private sector led support services.
	Total no. of FPA	0	100	200				
	Women FPAs	0	60	120				
	Youth FPAs	0	40	80				
	17. Number of Auxiliary Farm Service Providers (AFSP) trained and operational¹							
	Total no. of AFSP	0	100	200				
	Women AFSP	0	60	120				
	Youth AFSP	0	40	80				
	18. Local seed businesses (LSB) supplying Quality Declared Seeds established and operational¹							
	Total no. of LSB	0	100	200				
LSB run/led by women	0	60	120					
LSB run/led by youth	0	40	80					
OUTCOME B. Transport Infrastructure Serving Oilseeds Sector Improved	19. Households reporting improved physical access to markets				Project reports, Outcome/H H surveys, Market Surveys	Annual	PMU	Local government has the resources to support to maintain upgraded or new CARs. CARs complement other NOSP activities.
	Percentage of households	0	20	75				
	20. Oilseeds producers reporting reduced transport costs							
	Percentage of oilseeds producers	0	20	75				
% of youth oilseeds producers	0	20	40					
Output B.1 Community access roads constructed or rehabilitated to all-weather standard	21. Number of kilometres of roads constructed, rehabilitated or upgraded				Project Engineers' reports, PMU report	Quarterly	PMU	Local government has the resources to support road design, construction and maintenance.
	No. of kms	0	0	2,500				

* These are in alignment with PRO-WEAI indicators

(a) All indicators disaggregated by gender, age, poverty and location

(b) 31% HHs are female headed (UBOS 2016)

(c) The adoption rate for the NOSP Component 1 intervention is projected at 75% (75% of total 120,000 targeted HHs = 90,000), See more in EFA in Annex 4. Mid-term taken as mid-way PY4 based on the cumulative expenditure of the supply chain, producer mentoring, financial services and farm production advisors sub-components.